Select Committee on Pension Policy

Preliminary
Post-Retirement Employment Report
September 2003

Fiscal and Policy Implications of:
Chapter 10, Laws of 2001, 2nd Special Session
(ESSB 5937)

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Background:

In 2001, Washington State pension law was changed by expanding post-retirement employment opportunities for plan 1 of the Teachers' Retirement System (TRS 1) and for plan 1 of the Public Employees' Retirement System (PERS 1).

In response to a critical shortage of experienced teachers and other employees with skills that were in high demand, the limitation on the number of hours that a retiree can work in PERS 1 and TRS 1 was expanded to 1,500 per year (before suspension of the retirement benefit). The effective date of the law change was July 1, 2001.

The law also called for a study of the fiscal and policy impacts of the expanded post-retirement program.

Study Mandate: *The office of the state actuary shall review the actuarial impact of the temporary expansion of the post-retirement employment limitations provided by sections 3 and 4 of this act. No later than July 1, 2003, the state actuary shall prepare a report for the joint committee on pension policy regarding the fiscal and policy impacts of this act.*

The joint committee shall solicit information from the superintendent of public instruction, the department of personnel, the office of financial management, the department of retirement systems, and the health care authority regarding the program impacts of this act and shall report to the legislative fiscal committees no later than October 1, 2003, on any proposed changes or improvements to this act.

If the state actuary determines the expansion of post-retirement options under sections 3 and 4 of this act has resulted in increased costs for the state retirement funds, the joint committee report shall include a proposal for a process to charge those employers who employ retirees pursuant to an extension of sections 3 and 4 of this act for the costs incurred by the retirement funds under the extension. (Ch. 10, L of 01, 2nd sp. sess.)

Revised Study Mandate: Sections 5 and 6 of the bill that mandated this study were vetoed. As a result, the sunset date in 2004 that would have terminated the expansion of the post-retirement employment limitations was removed.

Further Program Changes in 2003: Chapter 412, Laws of 2003, made further changes to the post-retirement employment provisions. Of most significance to this study, the law placed new standards and procedures for the future employment of PERS 1 retirees. Specifically, the law created a lifetime limit on the number of hours a PERS 1 retiree may work after being rehired by a PERS eligible employer before suspension of their retirement benefit.

Joint Committee Replaced with the Select Committee on Pension Policy: Also during the 2003 Legislative Session, SHB 1204 (Chapter 295, Laws of 2003) was adopted. This law replaced the Joint Committee on Pension Policy (JCPP) with the Select Committee on Pension Policy (SCPP). The law enacting the mandate for this study was not revised to reflect the replacement of the JCPP. We have assumed that the duties and responsibilities of the original study mandate have transferred from the JCPP to the SCPP.

Proposed Reporting Process: In order to satisfy the study mandate, the Office of the State Actuary (OSA) proposed the following reporting process:

1. *OSA will present an initial draft of the report to the SCPP at the September 2003 committee meeting. The initial draft will contain an analysis of the fiscal impact of the act based on the data received thus far. The initial draft will also include a brief history and policy background for the subsequent policy impact discussion.*
2. *Based on the fiscal analysis and impact reported by the State Actuary, the SCPP will determine whether a proposal for a process to charge employers prospectively for any increased costs to the affected retirement systems is necessary.*
3. *At the October 2003 committee meeting, the SCPP will solicit information from the public and from the Office of the Superintendent of Public Instruction, Department of Personnel, Office of Financial Management, Department of Retirement Systems, and the Health Care Authority regarding the program impacts of this act.*
4. *Based on this input, the SCPP will prepare a final report for the legislative fiscal committees which may include any proposed changes to the act.*

Fiscal Impact:

Background

According to the study mandate, the state actuary shall determine if the expansion of post-retirement employment options under this act has resulted in increased costs for the state retirement systems. If so, the SCPP shall propose a process to charge those employers who employ retirees for the costs incurred by the retirement funds due to the extension.

Data Used in Analysis: The Department of Retirement Systems (DRS) provided quarterly files of rehired PERS and TRS retirees since the effective date of the law change (July 1, 2001). Principle data elements provided by DRS included the following:

- counts of PERS and TRS retirees
- hours worked
- salary
- date retired
- date rehired; and
- occupational information (TRS only).

Annual valuation data from the Office of the State Actuary was also used in the analysis. ***Note: These data have not been audited.***

Actuarial Impact/Analysis

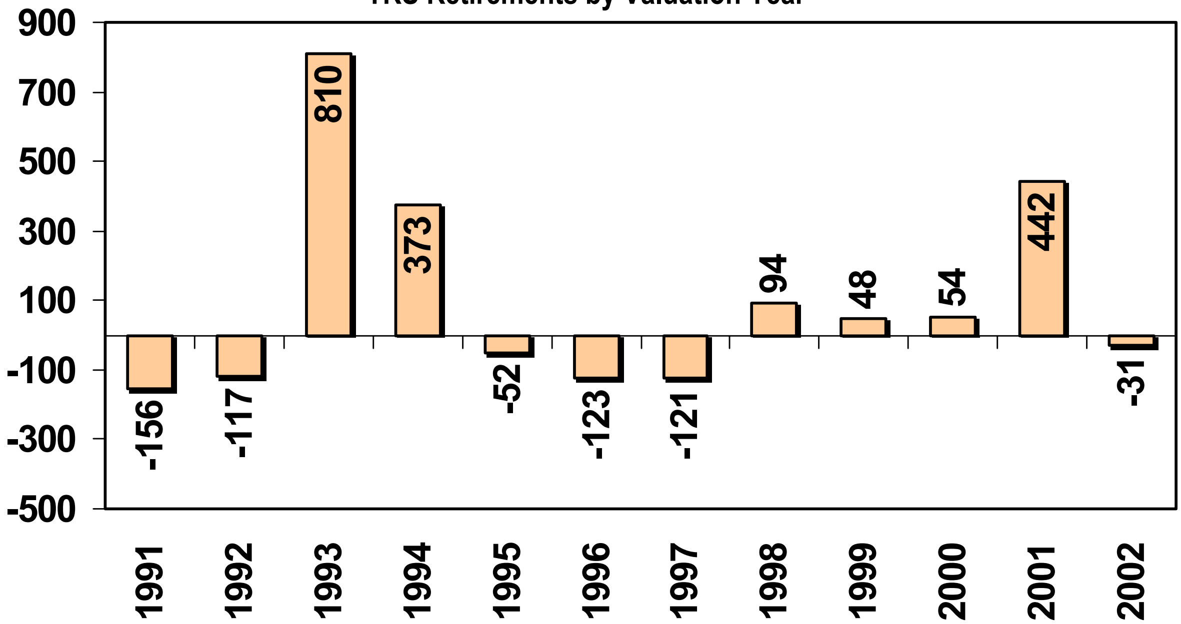
The extension of the number of hours a PERS 1 or TRS 1 retiree may work is not a direct benefit enhancement. In other words, it does not represent an immediate and easily measurable increase in the plan's retirement liability (like an increase in the retirement benefit formula or an increase in the plan's COLA).

Unlike a standard benefit enhancement, the actuarial impact of this program, if any, would surface through a significant increase in the number retirements over what is assumed under normal long-term plan experience. Retirements that were assumed and funded to occur at a later date, on average, would occur earlier. As a result, retirement benefits would be paid sooner than assumed and there would also be a loss of the member's contributions to the trust fund for the period of earlier retirement. PERS 1 and TRS 1 employers who employ retirees for more than the previous annual hourly limits are currently required to make employer contributions for the entire year, so there is no loss of employer contributions.

The cost of earlier retirement (i.e., longer payout) and loss of the member's future contributions outweigh the savings that result from a benefit based on a lower average final compensation and fewer years of service (from earlier retirement). Additionally, there would be limited savings of lower service in the retirement benefit from the earlier retirement of members with 30 or more years of service since the benefit formula in PERS 1 and TRS 1 is capped at 30 years of service (except for the Uniform COLA).

TRS Experience Data: The following Figure demonstrates the number of actual retirements as compared to the number of assumed retirements in TRS 1 during the 1991 through 2002 valuation plan years.

Figure 1
Actual Minus Expected
TRS Retirements by Valuation Year



You will note a downturn in the number of actual retirements in 1991 and 1992. This may have been due to the economic downturn during the period. The large surge in actual retirements during 1993 and 1994 was due to early retirement windows enacted by the Legislature. These windows tend to suppress the number of actual retirements in subsequent years. There also appears to be a significant spike in the number of retirements during 2001 (442 more actual retirements than assumed for the period); the first year of the expanded post-retirement provisions. Care must be used in analyzing these data because of changes in valuation year end dates; 2001 captures more than 1 year of retirements, both actual and expected.

PERS Experience Data: Chapter 412, Laws of 2003, made further changes to the law. Of most significance to this study, the law placed new standards and procedures for the future employment of PERS 1 retirees. Specifically, the law created a lifetime limit on the number of hours a PERS 1 retiree may work after being rehired by a PERS eligible employer before suspension of their retirement benefit. This law change became effective on July 27, 2003.

The new lifetime hours limit will likely change the behavior of future PERS 1 retirees and current PERS 1 retirees that are currently employed in eligible PERS positions. We do not have data available on retirements since the effective date of the law change for PERS 1. As a result, there are insufficient data to determine the actuarial impact of the expanded program on PERS 1 at this time.

Normal Volatility: As noted earlier in this report, from the 2000 valuation to the 2001 valuation date, TRS 1 experienced an excess of 442 retirements over what was assumed for those eligible to retire during that period. 2001 was the first year of the expanded post-retirement employment provisions.

Actuarial assumptions are based on long-term experience periods and are not employed nor anticipated to fit actual experience exactly for an annual period. Under a reasonable set of retirement assumptions, one would expect that the total number of actual retirements would more closely resemble the expected number of retirements over longer-term experience periods (say 5 to 10 years) in aggregate.

So, with this in mind, how much of this deviation in 2001 was due to normal volatility in annual retirement experience? One simple statistical approach to this question is to review the variance and standard deviation of the annual retirement experience. In this context, these statistics measure the deviation of the extra/fewer number of annual retirements from the average number of annual extra/fewer retirements over the sample period.

This calculation is developed in the following table:

Figure 2
Standard Deviation Analysis
Actual and Expected TRS 1 Retirement Experience

			Actual	Actual *	Expected	Actual* minus Expected
7/1/1990	**–**	**6/30/1991**	903	903	1,059	-156
7/1/1991	**–**	**6/30/1992**	911	911	1,028	-117
7/1/1992	**–**	**6/30/1993**	1,893	1,083	1,083	0
7/1/1993	**–**	**6/30/1994**	1,422	1,211	1,049	162
7/1/1994	**–**	**6/30/1995**	1,051	1,288	1,103	185
7/1/1995	**–**	**6/30/1996**	1,003	1,240	1,126	114
7/1/1996	**–**	**6/30/1997**	1,028	1,265	1,149	116
7/1/1997	**–**	**6/30/1998**	1,331	1,568	1,237	331
7/1/1998	**–**	**6/30/1999**	1,359	1,434	1,311	123
7/1/1999	**–**	**6/30/2000**	1,452	1,452	1,398	54
	–	**Standard Deviation****				**159**
7/1/2000	**–**	**9/30/2001**	3,042		2,600	442
10/1/2001	**–**	**9/30/2002**	1,426		1,457	-31

**The extra retirements in 1992 and 1993 due to the early retirement windows were evenly distributed over the subsequent five years. The 2001 and 2002 plan years were excluded from the sample. Because of changes in the valuation year end date, data for 2001 include more than 1 year for actual and expected retirements.*

***Based on a population mean value of zero.*

The 442 extra retirements during the 2001 valuation period represent the number of extra retirements from July 1, 2000 through September 30, 2001. Since most TRS 1 members retire effective July 1st, this period represents nearly two years of retirement experience (both actual and expected). The 442 extra retirements during the period is equivalent to a rate of 237 extra retirements per year over the period. This is equivalent to about 1.5 standard deviations from the mean.

Causal Relationship: There are numerous factors that influence an individual's decision to retire. Could the opportunity to work up to 1,500 hours during retirement provide an incentive for TRS 1 members to retire earlier than they otherwise would have and return to work? Yes. Could this expanded opportunity provide a stronger incentive for TRS 1 members with 30 or more years of service to retire earlier? This seems quite possible since the TRS 1 benefit formula is capped at 30 years of service. There are certainly additional factors that may provide a similar incentive. Furthermore, TRS 1 members are not guaranteed post-retirement employment in their former positions.

Unfortunately, there are insufficient data to determine the direct cause for the increase in TRS 1 retirements during 2001. Therefore, we cannot determine the true causal relationship for the increase in retirements. That being said, it does not eliminate the possibility that the increase was due, at least in part, to the expansion in the post-retirement employment provisions. Any increase in the actual number of retirements, over what is assumed, will represent an increase in the TRS 1 retirement liability if the trend were to continue in the future.

Limited Experience Period: How much data are needed to determine if a new trend has been established? Typically, actuaries study retirement plan experience every 5 to 6 years and adjust long-term retirement assumptions based on actual retirement experience over a 5 to 6 year consecutive period for a significant-sized cohort that is eligible to retire.

Substantial changes in plan provisions, like the expansion of the post-retirement employment provisions for TRS 1, may warrant an adjustment to the plan's retirement assumptions sooner than the 5 to 6 year experience study cycle. Under such circumstances, an actuary must use their professional judgment when determining whether an adjustment is necessary and, if so, how much credibility or weight to place on any emerging deviation in plan experience. Such an adjustment would allow the plan sponsor and covered employers to pre-fund any increase in plan liability. This funding approach, however, would charge all employers, whether they employ retirees for extended periods or not.

Actuarial Cost Characteristics: The direct cause of an earlier retirement is not easy to ascertain. The cost of an extra or earlier retirement, however, is a relatively standard actuarial calculation. The dollar cost is the actual retirement liability minus the expected retirement liability (actual minus expected). The expected liability would include projected future salary and service accruals plus the probability of future retirement at each age in the future. The actual liability reflects the liability of an immediate retirement based on salary and service at the valuation date.

Figure 3 displays the cost of earlier retirement for the 527 TRS 1 members that retired and rehired for more than 840 hours per year during the study (about two years of TRS 1 retirement experience). 840 hours was the former annual limit on the number of hours before suspension of the retirement benefit in TRS 1.

Figure 3
Actual Minus Expected Liability
TRS 1 Retirees Working over the Post-retirement Employment Limits

		Over 840 Hours
Count		527
Present Value of Fully Projected Benefits ***($ in thousands)***		
100% Retired	– Actual	$218,979
Remain Active	– Expected	$180,420
Difference		$ 38,559
	– – A v e r a g e s – –	
Present Value of Fully Projected Benefits		
100% Retired	– Actual	$415,519
Remain Active	– Expected	$342,354
Difference		$ 73,165
Difference as % of Expected Salary		31%
Annual Salary		$ 63,319
Service		31
Age		55

The average cost per person is about $73,000. This represents a cost of about 30% of pay, per retiree, for each year of earlier retirement (about 2.5 to 3 years on average in this sample).

This analysis of the cost characteristics in this section is limited by the availability of only 15 months of experience. Further study with additional years of data will increase the confidence and significance of the analysis. The cost of an earlier retirement, however, is a relatively stable percentage of pay for each year of earlier retirement.

Conclusion – Actuarial Analysis

Based on the above analysis, the state actuary has determined that the expanded post-retirement provisions of Chapter 10, Laws of 2001, 2nd special session, has resulted in increased costs for TRS 1. The exact cost to TRS 1, however, is not easily measurable with a high degree of accuracy or confidence. These limitations do not eliminate the presence or possibility of a cost to the plan.

Due to recent changes to the original retiree law affecting PERS 1, there are insufficient data to determine the actuarial impact of the expanded program on PERS 1 at this time.

Initial actuarial analysis suggests that the expanded program has resulted in an apparent increase in the number of actual TRS 1 retirements (as compared to what is assumed and funded through the actuarial valuation). This analysis is limited by availability of only 15 months of experience data and the lack of sufficient data to determine a direct causal link in the increase in TRS 1 retirements to the expansion of the post-retirement provisions.

Preliminary costs for each additional or earlier retirement as a percentage of an individual TRS 1 member's salary for employers hiring TRS 1 retirees for more than 840 hours is approximately 30% for each year a TRS 1 member retires earlier than was assumed in the actuarial valuation (on average). Cost estimates based on group averages that are applied to individual retirees, by definition, will undercharge some employers and overcharge others. Additionally, there is no clear-cut method of determining whether a retiree, on an individual basis, is an extra retirement.

Options:

1. Charge individual employers an additional 6% of pay, the member contribution rate, for each year a TRS 1 employer hires a TRS 1 retiree for more than 840 hours. The additional employer charge will stop once the rehired retiree reaches age 60 (the latest normal retirement age of the plan).
2. Defer a proposal to charge individual employers until further data and study is available.
3. Do not charge individual employers, but allow the exact increase in costs to emerge in the TRS 1 unfunded actuarial accrued liability that is paid by all TRS employers.

Analysis of Options:

Option 1 would recognize a portion of the increase in cost to TRS 1. The additional 6% employer charge is well below the average 30% charge for each year of earlier retirement, but would mitigate the consequences of applying an average rate for extra or earlier retirements to an individual employer. Additionally, the reduced employer charge of 6% recognizes the limited credibility of the preliminary nature of the data and analysis.

Option 2 would not recognize the increase in cost to TRS 1 (at least, not initially). As a result, the added cost incurred between now and adoption of the final employer charge would roll into the unfunded actuarial liability in TRS 1 and the cost would be amortized at June 30, 2024 as a level percentage of future TRS payroll for all TRS employers. This approach, however, would allow for the collection of additional data and would lead to an eventual employer charge with higher credibility.

Option 3 does not satisfy the study mandate since it would not result in a charge for only the individual employers that employ TRS 1 retirees for more than 840 hours per year. This approach, however, would eliminate the difficulty of devising a method of determining whether an individual retirement for a single employer has resulted in an extra or earlier retirement.

SCPP Proposal(s) - Fiscal

Proposal(s) determined in the next reporting phase.

Policy Implications

Background

The expansion of rehire opportunities for retirees was to accommodate the human resource needs of public employers -- school districts in particular. Many districts, particularly those in high cost urban areas, had difficulty filling teacher vacancies during the most expansive point in the last business cycle. Because public employers have little flexibility in the use of salary increases to attract job applicants, it was felt that use of pension policy to provide financial incentives for the existing teacher population, particularly recent retirees, would be a reasonable substitute.

Legislative History: At their inception, Washington's public retirement plans forbade members from returning to work at an employer within the same retirement plan. Were a retired PERS member to return to work for any PERS employer, their retirement benefits would be suspended until they terminated completely.

These restrictions were applicable to PERS or TRS retirees returning to work for a PERS or TRS employer. Retirees were never under any restriction regarding private employment, working for another state, or opportunities in the Federal government.

- *The 5 month Standard:* In the mid-1960s, the post-retirement employment door was opened. Legislation was passed in 1965 allowing retirees to return to work in ineligible positions – those requiring 5 months or less work per year.

- *TRS Follows Suit:* That 5-month standard in PERS -- 5/12ths of a year -- carried over to members of TRS as well. However, that 5/12ths was translated into 75 days (5/12ths of 180 days in the school year); as a result, TRS retirees were allowed to return to work for 75 days per school year in substitute positions.

Early on, the 75-day standard for TRS retirees was translated into 525 hours using an average of 7 hours per school day. This hourly measure was more accommodating for secondary school substitutes who might not teach for an entire school day.

In this last business cycle, with labor shortages being felt in most industry sectors, the 525-hour standard for retired teachers returning to work as substitutes was enhanced to 840 hours for school districts that had documented teacher shortages. TRS retirees were allowed to work up to 2/3rds of a school year as a substitute teacher or substitute principal in such a district (7 hour per day × 120 days of the school year = 840 hours). A TRS retiree returning to work as a substitute administrator was allowed to work up to 630 hours in a district where the school district board of directors adopted a resolution declaring that the services of the retiree were necessary because they could not find a replacement administrator to fill the vacancy.

2001 Legislation: While the ability of PERS and TRS retirees to return to work had been well established, legislation was passed in 2001 to address several issues. The Joint Committee on Pension Policy (JCPP) wanted to address a PERS return-to-work issue relating to how the 5-month allowance had been interpreted, and they wanted to standardize the 840 hour limit for all TRS retirees returning to work as substitutes in all school districts. The Governor's office wanted to help address the teacher shortage situation by allowing retired teachers to return to work full-time without a suspension of their retirement benefit thus receiving a full salary along with their retirement allowance (see Appendix C).

- *An Hour is a Month*: When the provision was passed allowing PERS retirees to return to work for 5 months, the statute was interpreted to mean that any time worked in a given month would debit that month from the 5-month allowance. For example: if a PERS retiree began work on January 1st, they would be eligible to work full time through the end of May; or if they began work on January 31st they would still only be eligible to work through the end of May. This interpretation allowed a PERS retiree to work on a full-time basis in only monthly increments.

- *An Hour is an Hour*: The JCPP proposed a bill that would allow PERS members to work 867 hours per year. This was a simple translation of the monthly limit into hours (5/12ths × 2080 hours per year). By amending the statute to read in hours, retirees and employers would be given greater flexibility in scheduling; instead of being limited to working full-time for 5 months, retirees would now be able to work part-time schedules for a greater part of the year.

- *2/3rds of a School Year*: The JCPP also forwarded a bill to the legislature increasing the amount of time TRS members could work in post-retirement situations. Formerly, members were limited to 525 hours of work as substitute teachers, or in districts with documented shortages, 630 hours as substitute administrators, or 840 hours as substitute teachers or principals. The JCPP bill proposed standardizing the post-retirement hourly limit to 840 hours for all TRS retirees returning to work as substitutes, be they teachers, administrators, or principals.

- *Coming Back Full Time*: At the same time the JCPP was proposing its legislation, the Governor's office requested legislation allowing TRS retirees to return to work for up to 1,500 hours in a school year. This hourly standard would allow TRS retirees to return to work full time as teachers since no school district had standard contracts requiring more than an 8 hour work day (8 hours per day x 183 contract days = 1,464 hours per contract year). As a result, retirees could return to work and, if they worked the entire school year, receive a full salary along with their full retirement allowance. More importantly, this legislation would also allow TRS retirees to return to work in other than substitute positions.

The 1,500 hour standard was proposed for PERS retirees as well. This would allow PERS retirees to work almost 9 months of the year without their benefit being suspended. As a result, PERS 1 retirees could return to work and, if they worked the full year, receive a full salary and three-quarters of their retirement allowance.

To help alleviate any potential cost of this change, the bill required that employers engaging a retiree for more than 867 hours, the earlier PERS standard, pay employer contributions to the retirement system for the entire time of the retiree's employment.

- *Without Reference*: In an unusual development, both the JCPP bill amending the post-retirement provisions in the TRS chapter (Ch. 317, L of 01, 1st sp. sess.) and Ch. 10, L of 01, 2nd sp. sess. passed into law in 2001. Since neither bill referenced the other, both were codified. With both provisions codified, legal precedent required that the more advantageous provision apply, thus the 1,500 hour limit became the standard.

  The JCPP bill amending the TRS chapter contained language giving the legislature the right to amend or repeal the section assuring that no member has a contractual right to 840 hours per year of post-retirement employment. The governor's request legislation contained similar language, giving the legislature the right to amend or repeal these sections and assuring that no member has a contractual right to more than 525 hours per year of post-retirement employment in TRS or 867 hours in PERS.

Post 2001 Legislation: Numerous bills were introduced after the passage of Ch. 10, L of 01, 2nd sp. sess. that sought to add provisions that both employers and members would have to follow. These provisions attempted to:

- Forbid the hiring of a retiree if there were four or more qualified applicants for the job. (Did not pass.)

- Increase the separation period after retirement before members could return for the 1,500 hours. (Passed: Increased to 90 days in PERS.)

- Require employers to provide documentation of a shortage before being allowed to hire a retiree. (Passed: Applicable to PERS employers.)

- Require employers to keep human resource records that could be audited to assure they follow existing hiring policies. (Passed: Applicable to PERS employers.)

- Limit the total number of hours a retiree could work beyond the former annual limit. (Passed: limited PERS rehires to 1,900 hours beyond the annual 867 hour limit.)

- Forbid verbal agreements to return to work. (Passed: applicable to PERS.)

In-Service Distributions

Verbal Agreements: The old caveat says that a verbal agreement is as good as the paper its written on. Old caveats die hard. Understanding verbal agreements is important because written agreements to return to work were forbidden, verbal agreements were not. There is considerable difficulty in enforcing any regulation against verbal agreements.

What Constitutes Separation: In order to be considered fully separated from their employer, PERS and TRS members must, after the effective date of their retirement, be gone for one calendar month. The effective date of a member's retirement is the first day of the month following the month in which they retired. A PERS member whose last day of employment was June 30th would have a July 1st retirement date. If they wished, they would be eligible to return to work on August 1st.

What Constitutes Retirement: The matter of what constitutes retirement arises in the melding of the "return-to-work agreement" issue and the "separation" issue. While this may seem rather academic, it could eventually be a matter effecting state policy and federal policy as well.

All qualified retirement plans, public and private, are governed by Federal statutes. The tax status of retirement plans is based on their adherence to these regulations. The litany of chapter and sub-chapter numbers of the Internal Revenue Code are familiar though not necessarily well understood: 401(a), 401(k), 403(b), 457 and so on. But one of the fundamental regulations governing public defined benefit plans is that no "qualified" retirement plan can provide "in-service distributions;" a member cannot receive their retirement benefit while still working.

With the potential for a verbal return-to-work agreement between an upcoming retiree and their employer, such a member's actual separation may be called into question. If it were determined that such agreements negated the separation of the employee from the employer, that could potentially disqualify a retirement plan allowing such an agreement. A disqualified plan would be subject to significant tax liabilities for the employee and employer.

The IRS does allow a great deal of leeway in their dealings with public retirement plans. Most recently, that leeway has allowed plans to engage in what are called transitional policies; easing members into retirement. This plan modification, however, has little resemblance to a transitional retirement policy; it is more related to personnel policy (filling hard-to-fill positions).

At its extreme, a verbal agreement to return to work may result in questions as to whether such an employee actually separated from their employer, and whether they are retired.

Other States / Systems: How do the post-retirement employment provisions in Washington State's public retirement systems compare to other states? Compared to other states', Washington's post-retirement employment provisions appear fairly typical. The following table illustrates the provisions governing post-retirement employment from select state retirement systems – the choice based on the largest systems, neighboring states, and a number of peer states based on population (see Figure 4).

Within this comparison, only Michigan's provision prohibits a member from working after they retire. Other states allow members to work a fixed number of hours for a plan employer after they retire (Calpers, Idaho, Oregon). Others allow a member to earn a fixed amount of salary (CalStrs, New York PERS and TRS). And others allow members to work full time (Kentucky and Texas).

Figure 4
Rehire Provisions from Select State Retirement Systems

State / System	Post-Retirement Employment Provisions
CALPERS	May work a maximum of 960 hours
CALSTRS	May earn a maximum of $24,934
Idaho PERSI	May work less than half time for public employment and less than half time contract for teachers
Kentucky PERS	May return to a different job in the same retirement system and earn an additional benefit. After age 65 (or 55 for hazardous duty employees), may return to any position and earn an additional benefit if reemployed full-time.
Kentucky TRS	May return full-time with a different employer after three month separation, or return to the same employer after a one year separation. Pay limited to 75% of last salary and employers limited to using rehires in 4% of positions.
Michigan SERS	Retirement allowance will be suspended for any month for which state wages are paid
New York PERS & TRS	May earn a maximum of $25,000
Ohio PERS and STRS	After 2 month separation may return full time but must contribute to a separate annuity.
Oregon PERS	May work a maximum of 1,039 hours
Texas PERS	May work full time with no contributions and no added benefit.

Other Rehire Characteristics

System: While rehires are found among both PERS and TRS members, the largest number come from the TRS ranks (see Figure 5).

Figure 5
Rehires by System and
Percent of Total Annuitants

	PERS	TRS
Total Rehires	2,542	5,168
Percent of Annuitants	4.1%	15.6%

Comparing rehires by their ratio to total annuitants results in an even greater incidence of rehire activity by TRS members; some 15.6% of TRS retirees returned to work in a TRS position while 4.1% of PERS retirees returned to a PERS position.

Rehire Characteristics Data: In the following section of the report these data have been arrayed into groupings of members who were:

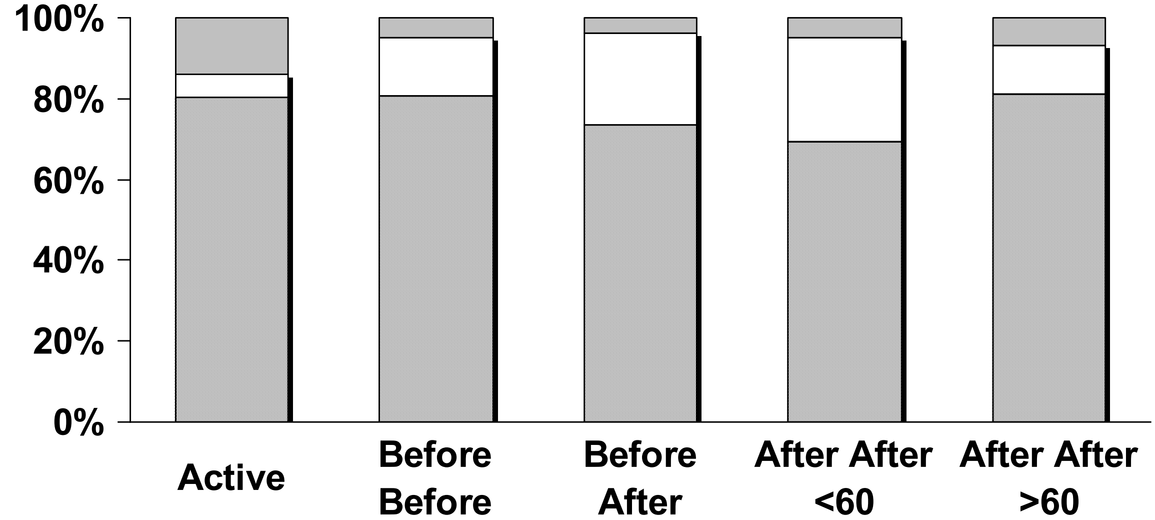
- **Before Before** – retired and rehired before the effective date of these changes,
- **Before After** -- retired before and rehired after the changes,
- **After After <60** -- retired after the changes and rehired within 60 days of separation, or
- **After After >60** -- retired after the changes and rehired after 60 days of separation.

Plus, each of these groupings is split between those working above and below the old post-retirement hourly thresholds – 867 hours in PERS and 840 hours in TRS.

Occupations: The Department of Retirement Systems collects some rudimentary occupational information on TRS retirees but none on PERS retirees. The occupational distribution of PERS retirees can only be presumed via other measures like salary.

The occupations of TRS retirees fall within three large categories – teachers, administrators, and others (see Appendix A for detail). Two items are evident in the occupational distribution of active and rehired TRS members, the greater use of administrators in rehire situations, and the lesser use of those in "other" occupations (see Figure 6). While administrators constitute 5.7% of all TRS occupations in Washington's schools, over 25% of those rehired within 60 days of retirement have been in administrator positions. This may be called a desirability effect. These patterns hold for both PERS and TRS members. This may also be a borrowing phenomenon; those higher salaried / managerial members retiring during this period will not be included in the future averages; thus the characteristics of future retirees may exhibit a moderating age, member service, and salary profile.

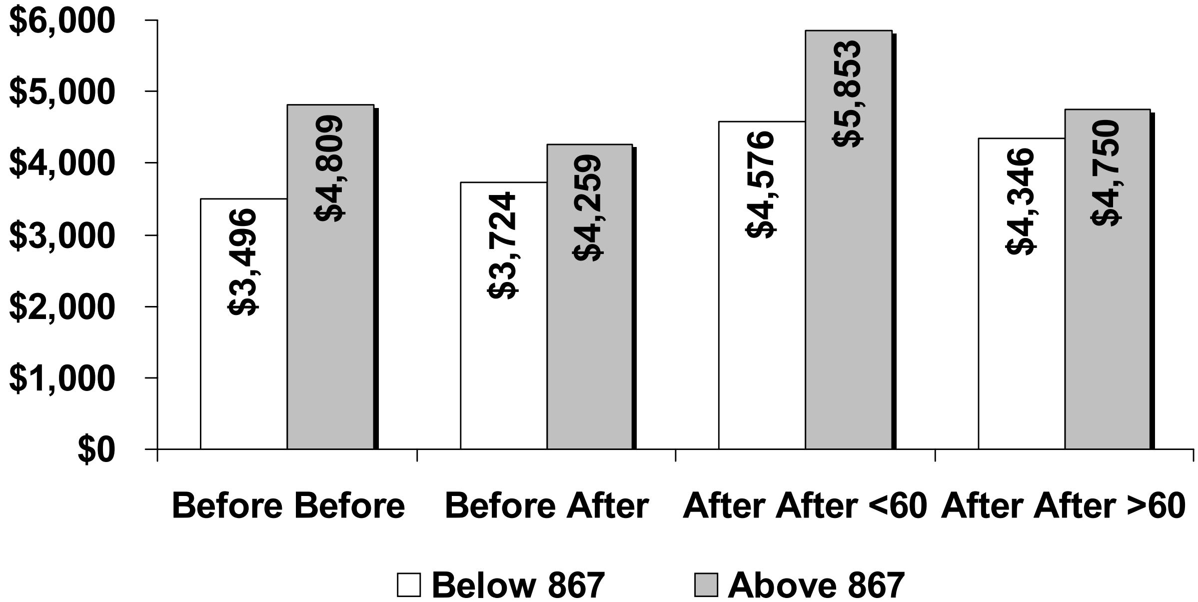
Figure 6
Occupational Share of Active TRS Members and Rehired TRS Members
Working Over 840 Hours During the 2002-03 School Year
by Period of Retirement



	Active	Before Before	Before After	After After <60	After After >60
Other	14.0%	5.1%	3.7%	5.0%	6.8%
Admin	5.7%	14.3%	22.9%	25.7%	12.0%
Teach	80.3%	80.6%	73.4%	69.3%	81.2%

Average Final Compensation: Another measure to examine in these retire-rehire characteristics is salary; because there is no occupational identifier in PERS retirement data as there is in TRS, salary is used as a proxy. If there were a greater share of managerial retirees in the current rehire situations, that would portend a higher average final compensation (AFC). This was the case as PERS 1 retiree AFC rose significantly when comparing select rehires (see Figure 7). Even after discounting for some inflation, this may be an indication that more senior administrative and managerial members represented a greater share of recent rehires.

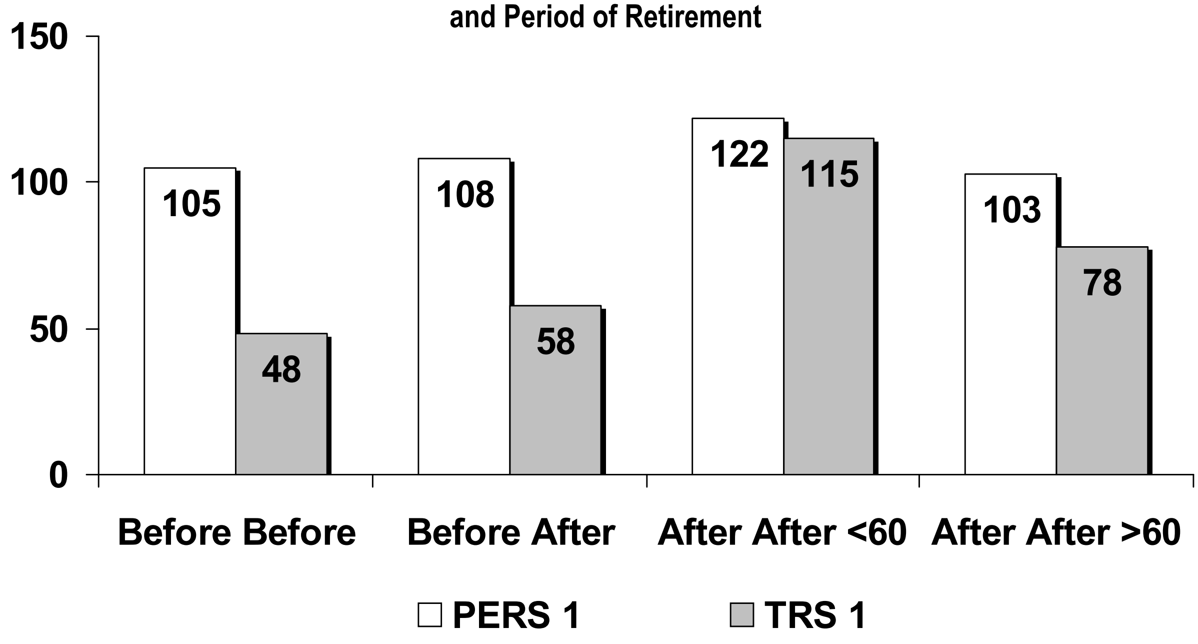
Figure 7
PERS 1 Rehires by AFC,
Amount Working, and Period of Retirement



Rehire Hours: Because of the interpretation of the 5-month provision, PERS retirees who returned to work could not spread out their hours, as could TRS members. As a result, they tended to work more hours per month but for fewer months. The changes in post-retirement provisions allowed PERS 1 members to work almost twice as much as before in terms of total hours, but also gave them, and their employers, the option of working part-time for the whole year.

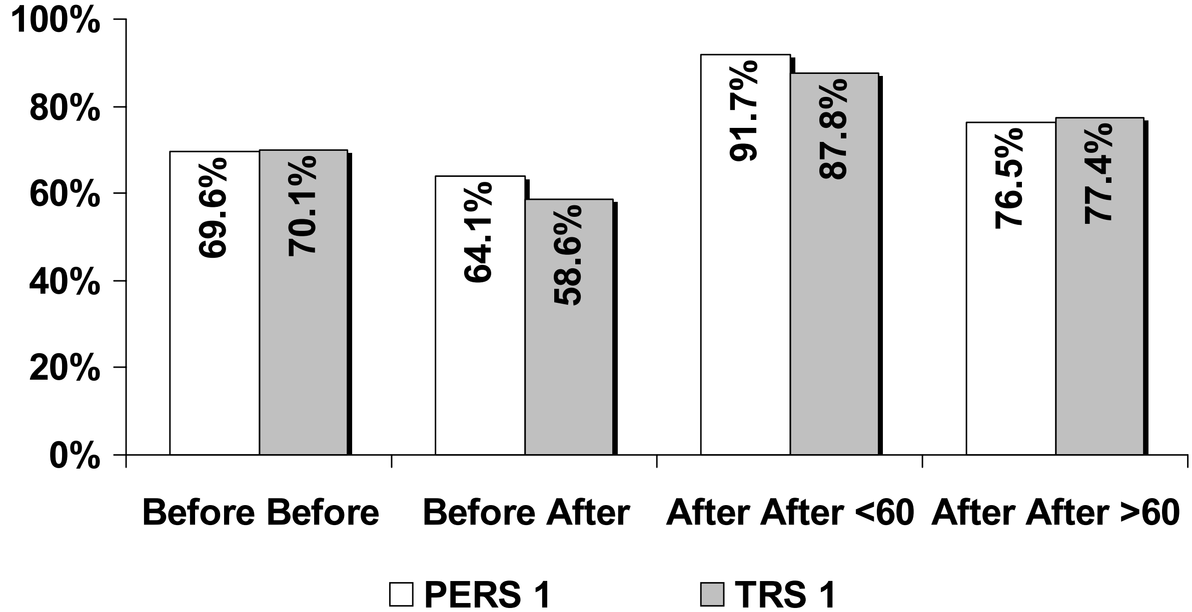
The greater increase in hours among the TRS members returning to work, compared to PERS, may be the result of the new opportunity to work full-time instead of as substitutes (see Figure 8).

Figure 8
PERS 1 and TRS 1 Rehires by Hours per Month
and Period of Retirement



Return to Where: When retirees return to employment, where do they return? For the most part, they return to their former employers. While a number of retirees do use retirement to change employers and seek other opportunities, they tend to be in the minority. Prior to the changes in the post-retirement statutes, approximately 2/3rds of rehires who returned to work did so with their last employer (see Figure 9). In the period immediately following the changes, nine out of ten rehires returning within 60 days returned to the same employer from which they retired.

Figure 9
PERS 1 and TRS 1 Rehires by
% at Same Employer and Period of Retirement



Who Uses Rehires: Many employers use retirees as part of their human resource policy. This analysis examines those employers who had 5 or more retirements and more than a 20% rate of rehire. Some 130 employers met that criteria, 89 TRS employers and 41 PERS employers – 18 of those PERS employers were school districts or community colleges as many of their administrative staff are not certified and are either PERS or SERS members.

As TRS members constitute the majority of rehires, it would hold that school districts be the most common employers. The largest such employer is the Seattle School District, employing 80 rehires as of the end of 2002 (see Figure 10). The top rehire employers are school districts within the Puget Sound region. That these tend to be among the largest school districts in the state is one of the reasons they employ large numbers of rehires. In addition, it is within this region where all employers experienced significant labor shortages at the peak of the last business cycle.

A number of PERS employers also employ a significant number of rehires. The Department of Social and Health Services employed 44 rehires; this number is relatively middling considering the size of DSHS, and their large number of retirees. The State Department of Transportation is the next PERS employer on the list with 23 rehires.

Lake Stevens School District is noteworthy in that all those it rehired were on pace to work full time. Lake Stevens is not the only such employer (see Appendix B): all the retirees rehired by The Department of Information Services, McNeil Island Correctional Facility, Kiona- Benton City School District, Grandview School District, and Ellensburg School District were on pace to work beyond the earlier hourly limits.

Figure 10
Rehires by Employer Ranked by Number Working Above Earlier Limit
From July 1, 2001 to December 1, 2002

Department Name	Retirees	Rehires	Over 840-867 Hour Threshold
Seattle SD	225	80	35
North Thurston SD	64	46	27
Highline SD	75	38	25
DSHS	294	44	21
Lake Washington SD	70	30	18
Renton SD	46	32	18
Northshore SD	55	33	12
Shoreline SD	50	19	12
DOT	116	23	12
Tacoma SD	129	65	11
Edmonds SD	77	32	11
Lake Stevens SD	19	11	11
Kent SD	79	28	10
Auburn SD	45	14	10
Issaquah SD	43	20	9

Unemployment Insurance Issue

Unemployment insurance (UI) is provided to those that lose their jobs. To qualify, a worker had to have been in a job covered by unemployment insurance, have worked 680 hours in 4 of the last 5 calendar quarters, and be without work through no fault of their own.

Workers who retire are not unemployed – they have voluntarily left employment and do not qualify for UI. By returning to work, however, most retirees place themselves on a new rung of the labor market ladder. The majority of retirees in public sector return-to-work arrangements are no longer in permanent jobs. They no longer have an expectation of continued employment beyond a fixed point in the future – normally less than one year. As a result, when they separate from that job, they are considered unemployed. And if they worked at least 680 hours in that job, they are eligible for UI.

State and local governments in general have a low incidence of employee lay-offs or reductions in force (RIFs). There are a variety of government employers – parks departments, and even schools -- that use seasonal employees. But even these employees have a reasonable expectation of continued employment; school employees don't work in July and August, but know they have a job come September. As a result, the unemployment taxes paid by State and Local government are quite low on the tax schedule. However, by hiring a retiree who may, at the end of their employment, be eligible for UI, government employers may be increasing their unemployment tax liability. While this is not a cost to the retirement plans, it is a cost nonetheless. Recent legislation (SHB 1829, C412 L03) requires DRS and the Employment Security Department to notify employers about the possible unemployment compensation consequences of hiring retirees.

Retirees Return

It appears that retirees are attracted back to public employment by increasing the number of hours they are allowed to work before their benefit is suspended. This can be seen when comparing the counts over time of retirees who already had some post-retirement work experience, and counts of other retirees whose original retirement decision could not have been influenced by the change in statute. These two groups of retirees experienced an increase of 1,347 workers between June and December of 2002 (see Figure 11).

Figure 11
Counts of Rehires Whose Original Retirement Decision Was Not Influenced by Ch. 10, L of 01, 2nd sp. sess.

Period Ending	Before Before		Before After		Total
	PERS 1	TRS 1	PERS 1	TRS 1	
June 02	711	1,281	621	1,767	4,380
Dec 02	924	1,527	1,022	2,254	5,727
Increase	213	246	401	487	**1,347**

Stakeholder Input

The SCPP will solicit information from the public and from OSPI, DOP, OFM, DRS and HCA regarding the program impacts of this act.

SCPP Proposal(s) - Policy

Proposal(s) determined in the next reporting phase.

Appendix A

Department of Retirement Systems Occupational Classification for TRS Members

Duty/Assignment*	Individuals*	DRS Classification
Superintendent	279	Administrator
Deputy/Assist. Supt.	159	Administrator
Other District Admin.	1,032	Administrator
Elementary Principal	1,171	Administrator
Elem. Vice Principal	170	Administrator
Secondary Principal	653	Administrator
Secondary Vice Principal	775	Administrator
Other School Admin.	394	Administrator
Elementary Teacher	31,548	Teacher
Secondary Teacher	26,298	Teacher
Other Teacher	7,416	Teacher
Other Support Personnel	3,340	Other
Library Media Specialist	1,457	Other
Counselor	2,231	Other
Occupational Therapist	379	Other
Social Worker	139	Other
Spch.-Lang. Path./Audio.	1,095	Other
Psychologist	936	Other
Nurse	512	Other
Physical Therapist	152	Other
Reading Resource Spec.	20	Other
Extracurricular	1,101	Other
Substitute Teacher	52	Teacher
Certificated on Leave	497	Depends on role when active

**From Washington State Superintendent of Public Instruction, School District Personnel Summary Profiles.*

Appendix B

RETIREE RETURN TO WORK SUMMARY FOR DECEMBER, 2002

Percentage of Rehire by Department for Members Retiring Between JULY 2001 and DECEMBER 2002
Departments having 5 or more retirements and more than a 20% rate of rehire

		Rehires		Over limit	
DEPARTMENT NAME	**Retirees**	**Number**	**Percent**	**Number**	**Percent**
NACHES VALLEY SD 003 JT	10	10	100.0%	8	80.0%
WHITE RIVER SD 416	9	9	100.0%	4	44.4%
PUYALLUP SD 003	57	53	93.0%	5	9.4%
UTILITIES & TRANSPORTATION COM	7	6	85.7%	0	0.0%
KIONA-BENTON CITY SD 052	6	5	83.3%	5	100.0%
DEER PARK SD 414	6	5	83.3%	0	0.0%
ENUMCLAW SD 216	15	12	80.0%	6	50.0%
KELSO SD 458	12	9	75.0%	5	55.6%
TUKWILA SD 406	8	6	75.0%	4	66.7%
ANACORTES SD 103	8	6	75.0%	2	33.3%
N THURSTON PUBLIC SCHOOLS - SD	64	46	71.9%	27	58.7%
RENTON SD 403	46	32	69.6%	18	56.3%
KETTLE FALLS SD 212	6	4	66.7%	0	0.0%
SELAH SD 119	6	4	66.7%	0	0.0%
UNIVERSITY PLACE SD 083	17	11	64.7%	7	63.6%
CAMAS SD 117	11	7	63.6%	4	57.1%
SEATTLE COMMUNITY COLLEGE	18	11	61.1%	0	0.0%
EASTMONT SD 206	18	11	61.1%	4	36.4%
NORTHSHORE SD 417	55	33	60.0%	12	36.4%
FERNDALE SD 502	20	12	60.0%	5	41.7%
LAKE STEVENS SD 004	19	11	57.9%	11	100.0%
MERCER ISLAND SD 400	21	12	57.1%	5	41.7%
YELM SD 002	14	8	57.1%	6	75.0%
GREEN RIVER COMMUNITY COLLEGE	7	4	57.1%	0	0.0%
SUNNYSIDE SD 201	7	4	57.1%	0	0.0%
SUNNYSIDE SD 201	7	4	57.1%	2	50.0%
WAPATO SD 207	7	4	57.1%	3	75.0%
BREMERTON SD 100	18	10	55.6%	4	40.0%
CORRECTIONS AIRWAY HTS CORR CT	9	5	55.6%	0	0.0%
THURSTON CO	9	5	55.6%	1	20.0%
SHELTON SD 309	9	5	55.6%	3	60.0%
GRANDVIEW SD 200	9	5	55.6%	5	100.0%
MOUNT VERNON SD 320	13	7	53.8%	1	14.3%
HIGHLINE SD 401	75	38	50.7%	25	65.8%
TACOMA SD 010	129	65	50.4%	11	16.9%
MONROE SD 103	14	7	50.0%	2	28.6%
SEDRO WOOLLEY SD 101	12	6	50.0%	4	66.7%
QUILLAYUTE SD 402	8	4	50.0%	1	25.0%
COLVILLE SD 115	8	4	50.0%	3	75.0%
STEILACOOM HISTORICAL SD 001	6	3	50.0%	2	66.7%
CLOVER PARK TECHNICAL COLLEGE	6	3	50.0%	1	33.3%
KENNEWICK SD 017	37	18	48.6%	5	27.8%
ISSAQUAH SD 411	43	20	46.5%	9	45.0%
ELLENSBURG SD 401	11	5	45.5%	5	100.0%
BURLINGTON-EDISON SD 100	11	5	45.5%	0	0.0%
PORT ANGELES SD 121	27	12	44.4%	6	50.0%
MUKILTEO SD 006	18	8	44.4%	2	25.0%
SNOQUALMIE VALLEY SD 410	16	7	43.8%	3	42.9%
STANWOOD SD 401	16	7	43.8%	5	71.4%
SEQUIM SD 323	9	4	44.4%	2	50.0%

Appendix B

Continued

DEPARTMENT NAME	Retirees	Rehires Number	Rehires Percent	Over limit Number	Over limit Percent
LAKE WASHINGTON SD 414	70	30	42.9%	18	60.0%
SUPERINTENDENT OF PUBLIC INSTR	14	6	42.9%	5	83.3%
TAHOMA SD 409	14	6	42.9%	2	33.3%
ROCHESTER SD 401	7	3	42.9%	0	0.0%
LYNDEN SD 504	7	3	42.9%	1	33.3%
EDMONDS SD 015	77	32	41.6%	11	34.4%
BELLINGHAM SD 501	36	15	41.7%	2	13.3%
OAK HARBOR SD 201	24	10	41.7%	1	10.0%
BAINBRIDGE ISLAND SD 303	17	7	41.2%	4	57.1%
BELLEVUE SD 405	60	24	40.0%	7	29.2%
AUDITORS OFFICE ST	10	4	40.0%	2	50.0%
TACOMA SD 010	38	15	39.5%	0	0.0%
SHORELINE SD 412	50	19	38.0%	12	63.2%
CLOVER PARK SD 400	45	17	37.8%	5	29.4%
INFORMATION SERVICES DEPT OF	13	5	38.5%	5	100.0%
CORRECTIONS MCNEIL ISLAND CORR	8	3	37.5%	3	100.0%
RENTON SD 403	8	3	37.5%	1	33.3%
MONTESANO SD 066	8	3	37.5%	0	0.0%
SEATTLE SD 001	225	80	35.6%	35	43.8%
EVERGREEN SD 114	58	21	36.2%	4	19.0%
MOSES LAKE SD 161	14	5	35.7%	2	40.0%
PENINSULA SD 401	14	5	35.7%	2	40.0%
TUMWATER SD 033	14	5	35.7%	0	0.0%
AGRICULTURE DEPT OF	11	4	36.4%	1	25.0%
KENT SD 415	79	28	35.4%	10	35.7%
CENTRAL KITSAP SD 401	23	8	34.8%	2	25.0%
VANCOUVER SD 037	62	21	33.9%	5	23.8%
MARYSVILLE SD 025	35	12	34.3%	4	33.3%
S KITSAP SD 402	24	8	33.3%	4	50.0%
CORRECTIONS WA STATE REFORMATO	18	6	33.3%	2	33.3%
WESTERN WA UNIVERSITY	15	5	33.3%	0	0.0%
LONGVIEW SD 122	12	4	33.3%	1	25.0%
YAKIMA CO	9	3	33.3%	2	66.7%
MOUNT ADAMS SD 209	9	3	33.3%	2	66.7%
BELLEVUE COMMUNITY COLLEGE	6	2	33.3%	0	0.0%
EVERETT PORT OF	6	2	33.3%	1	50.0%
OAK HARBOR SD 201	6	2	33.3%	0	0.0%
MOSES LAKE SD 161	6	2	33.3%	1	50.0%
WALLA WALLA SD 140	6	2	33.3%	0	0.0%
CASTLE ROCK SD 401	6	2	33.3%	1	50.0%
PASCO SD 001	19	6	31.6%	1	16.7%
AUBURN SD 408	45	14	31.1%	10	71.4%
LONGVIEW SD 122	32	10	31.3%	4	40.0%
SPOKANE PUBLIC SCHOOLS	91	27	29.7%	3	11.1%
ARLINGTON SD 016	10	3	30.0%	1	33.3%
BETHEL SD 403	35	10	28.6%	0	0.0%
EVERETT SD 002	35	10	28.6%	5	50.0%
CHENEY SD 360	21	6	28.6%	0	0.0%
COMMUNITY COLLEGE OF SPOKANE	14	4	28.6%	0	0.0%
RENTON CITY OF	7	2	28.6%	1	50.0%
HOQUIAM SD 028	7	2	28.6%	1	50.0%
WHITE PASS SD 303	7	2	28.6%	1	50.0%
SNOHOMISH SD 201	22	6	27.3%	0	0.0%
GRANT CO PUD 02	15	4	26.7%	2	50.0%
SHORELINE SD 412	11	3	27.3%	0	0.0%
OTHELLO SD 147	11	3	27.3%	2	66.7%
EPHRATA SD 165	11	3	27.3%	0	0.0%

Appendix B

Continued

DEPARTMENT NAME	Retirees	Rehires Number	Rehires Percent	Over limit Number	Over limit Percent
MOUNT BAKER SD 507	11	3	27.3%	1	33.3%
OLYMPIA SD 111	42	11	26.2%	9	81.8%
ENERGY NORTHWEST	23	6	26.1%	5	83.3%
YAKIMA SD 007	48	12	25.0%	6	50.0%
ECOLOGY DEPT OF	20	5	25.0%	2	40.0%
ATTORNEY GENERAL	16	4	25.0%	2	50.0%
CORRECTIONS WA STATE PENITENTI	16	4	25.0%	2	50.0%
ABERDEEN SD 005	16	4	25.0%	0	0.0%
EASTERN WA UNIVERSITY	8	2	25.0%	0	0.0%
ADMINISTRATIVE OFFICE OF THE C	8	2	25.0%	0	0.0%
HIGHLINE SD 401	8	2	25.0%	1	50.0%
MEDICAL LAKE SD 326	8	2	25.0%	0	0.0%
RICHLAND SD 400	25	6	24.0%	5	83.3%
SUMNER SD 320	22	5	22.7%	1	20.0%
LAKE WASHINGTON SD 414	13	3	23.1%	0	0.0%
CENTRALIA SD 401	18	4	22.2%	2	50.0%
LEWIS CO	9	2	22.2%	1	50.0%
BELLEVUE CITY OF	9	2	22.2%	1	50.0%
EVERETT CITY OF	9	2	22.2%	1	50.0%
EVERGREEN SD 114	9	2	22.2%	0	0.0%
CENTRAL KITSAP SD 401	9	2	22.2%	0	0.0%
KC METRO	70	15	21.4%	1	6.7%
PIERCE CO	14	3	21.4%	1	33.3%
TRS Employers	2,451	1,073	43.8%	428	39.9%
PERS Employers	531	172	32.4%	45	26.2%
Total	2,982	1,245	41.8%	473	38.0%

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Appendix C

Governor's Veto Message for SHB 1829

"I am returning herewith, without my approval as to sections 1 and 2, Substitute House Bill No. 1829 entitled:

"AN ACT Relating to post-retirement employment in the public employees' retirement system and the teachers' retirement system;"

This bill would impose new standards and procedures for rehiring members of the Teachers Retirement System and the Public Employees Retirement System who have retired from public employment.

I initially proposed the retire-rehire legislation in 2001 to address the shortage of qualified teachers and school administrators. Prior to this law, the Teachers Retirement System penalized experienced teachers by limiting them to 30 years of retirement service credit, even if they taught longer than that.

Section 1 would make it a felony for a member of the Teachers Retirement System to enter into an oral or written agreement to resume employment after retirement. While I appreciate the intent of the Legislature to prohibit employees and employers from entering into private handshake deals, the penalty in this section is significantly more severe than the penalty for similar acts committed by members of the Public Employees Retirement System. Therefore, I am vetoing section 1.

Section 2 would provide new standards and procedures for the future employment of retirees within the public school system. I strongly support those accountability provisions. However, section 2 would also place an artificial "lifetime limit" on the number of hours that a retired member of the system could work after being rehired, and would make that limit retroactive. The retroactive lifetime limit will place an unreasonable recruitment burden on school districts facing significant shortages of qualified teachers and principals. We must protect the ability of school districts to provide for the education of our children, and trust their locally elected school boards to properly administer the retire-rehire law. Therefore, I am vetoing section 2.

While I am not vetoing Section 4, which would make it a gross misdemeanor for a member of the Public Employees Retirement System to enter into an oral or written agreement to resume employment after retirement, I am concerned that the language of the section is flawed and therefore almost impossible to prosecute under. I believe the Legislature should consider legislation to perfect the language to make the elements of the crime clear and to place the language into RCW 41.40.055, which is the section dealing with pension fraud for this retirement system.

For these reasons, I have vetoed sections 1 and 2 of Substitute House Bill No. 1829.

With the exception of sections 1 and 2, Substitute House Bill No. 1829 is approved."